Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Required Report - public distribution

Date: 9/26/2002

GAIN Report #UP2007

Ukraine

Poultry and Products

Annual

2002

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Report Highlights:
Broiler meat exports to Ukraine will continue to decline as a result of the ban on U.S. poultry meat coupled with increased domestic production.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Kiev [UP1], UP

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Executive Summary

Direct and transhipped imports of U.S. poultry meat into Ukraine in 2003 are forecast to continue to decline as a result of increased domestic production of broiler meat, the ban on U.S. poultry meat imports, and a shift in consumer preferences towards chilled broiler meat. Opportunities for U.S. exporters of frozen poultry to resume legal trade are still good once the ban on U.S. poultry meat is lifted. Despite increased domestic production, Ukrainian poultry meat exports will remain below 1,000 tons due to strong domestic demand and limited cold chain infrastructure. Domestic broiler meat will continue to replace spent hens in the Ukrainian diet through 2003. However, poultry consumption will remain significantly below that of pork and beef.

Section I. Narrative

Production

In 2003, broiler meat output will continue the upward trend begun in Ukraine in 2000. This reflects reduced competition from imported product coupled with continued investment in domestic poultry operations. The Government of Ukraine (GOU) has high hopes that broiler meat production in 2003 will exceed 200,000 MT. However, production will more likely be lower than that anticipated by the GOU as domestic producers continue the process of modernizing production practices and improving cold storage facilities. In addition, the domestic industry still faces stiff competition from both legal and illegal imports. The forecasted increase in broiler meat production will also largely depend on domestic feed grain prices and exports, as well as the ability of producers to increase soybean meal imports in MY 2002/2003.

There are no official GOU statistics on broiler production. Ukrptakhoprom, the Association of Poultry Producers of Ukraine, reports that production of chicken meat in 2002 continues to rise. There are 45 large and medium-sized chicken farms in Ukraine. If we include broiler meat output by the approximately 500 smaller commercial poultry operations which were former collective farms, total chicken meat production for January-June 2002 is believed to have reached 68,000 MT. This six-month estimate already exceeds the entire CY 2001 broiler meat production level of 60,000 MT. Reflecting this swift growth, Ukraine's MY 2001/2002 soybean meal imports are double those of the previous year.

Domestic broiler production has been stimulated in large part by the ban on U.S. poultry meat imports. This ban was originally introduced in November 2001, lifted briefly in December 2001, and then reinstated in January 2002. The ban is for all poultry meat, including turkey meat and products. **There is no significant commercial turkey production in Ukraine.**

Investment

Investment in Ukraine's domestic poultry industry has mainly come from local oil and gas traders and other sources of private capital. Investors are attracted to the poultry sector because of Ukraine's preferential taxation in the agricultural sector as well as the opportunity for quick turnover of capital. Nearly all commercial poultry farms have changed owners since 1995.

There is increased interest on the part of foreign investors, including those from the United States, in establishing production facilities in Ukraine. Hy-Line, a U.S. breeder of layers, has provided breeding stock to Ukraine. Also, the European office of the broiler breeder Cobb-Vantress, a Tyson subsidiary, has also announced significant sales to a major Ukrainian poultry facility.

Negotiations are ongoing with potential U.S. investors in a proposed vertically integrated broiler operation in Odessa Oblast. This facility would include a feedmill, hatchery, poultry houses and processing facilities.

Consumption

Consumption of broiler meat is forecast to increase in 2002, prompted by low prices and increased domestic production. Chilled meat consumption is rising at the expense of frozen product as supermarkets become more widespread. Producers have also expanded the direct sale of fresh chickens at local outdoor markets in Kiev and other major cities in Ukraine.

The share of broiler meat in overall poultry meat consumption in 2003 is expected to increase to 45-50% from an estimated 35% in 2002 and 25% in 2001, replacing spent hens produced by private households. Following the collapse of the domestic poultry industry in the early 1990s, frozen imported poultry became widely available in the major cities of Ukraine. Unmet urban demand for fresh and chilled broiler meat products is now being satisfied through increased domestic production.

During the past 12 months, U.S. frozen poultry has been the target of a negative PR campaign within Ukraine. This bad press has also influenced consumers to purchase pricier chilled poultry in place of frozen cuts (see Marketing section).

Broiler meat remains the cheapest source of meat protein. Nevertheless, consumers still prefer pork and beef. BSE has not been found in Ukraine. The animal health crises in Europe have had very little impact on consumer preferences due to the low awareness of BSE among Ukrainian consumers.

Trade

Ukraine will continue to import poultry meat in the near future, despite the previously discussed expansion of domestic production as well as the ban on U.S. poultry imports. Major imported items include frozen chicken and turkey cuts, offal and mechanically deboned meat (MDM). Legal and illegal imports in 2003 are forecast to decline as a result of the anticipated increase in domestic production and ongoing efforts by the GOU to reduce smuggling. The broiler meat import forecast for 2003 considers only legal trade and assumes that the import ban on U.S. poultry will be lifted. Smuggled chicken, which is not accounted for in the PSD, will continue at reduced levels of about 50,000 MT. Ukraine will continue to import turkey meat and offal due to limited domestic production.

European broiler meat suppliers from Belgium, the Netherlands, Germany and France are expected to increase their share of Ukrainian poultry imports in 2003 as EU product replaces banned poultry from the United States. The last legal shipment of U.S. poultry meat into Ukraine arrived at the end of January 2002. Since that time, European suppliers have been steadily increasing their import share (see Import Trade matrix in Section II).

Despite the ban, U.S. frozen chicken cuts are still readily available in most open markets in Ukraine. The current retail price for U.S. frozen poultry is about UAH 7.00-8.50 per kilogram ($1.32-1.60/kg) which is UAH 1.00-1.50 ($0.19-0.28/kg) lower than Ukrainian product. Traders have noticed a recent increase in smuggled poultry meat, particularly through the Ukraine-Moldova border.

The import trade matrix provided in Section II was compiled based on official Ukrainian trade statistics utilizing the "country of origin" principle. Ukraine has imported U.S. poultry meat through Poland, the Russian Federation, and other neighboring countries -- in addition to direct imports and smuggling. **To reflect a truer picture of Ukrainian poultry imports, Post suggests: 1) using official Ukrainian import numbers whenever they exceed U.S. export data; or 2) utilizing export numbers derived from other countries covered by the World Trade Atlas.** The estimate of imported poultry parts in 2002 has been increased to reflect officially reported trade through January-June 2002.

Prices

Surprisingly, broiler meat prices in Ukraine have not surged significantly since the U.S. poultry ban (see Prices table). Prices did increase 14% in March 2002, two months into the ban, as compared with December 2001, when there was still plenty of legal U.S. frozen poultry in Ukraine. Prices decreased after March 2002 as domestic production and illegal imports filled in the supply gap.

Stocks

Post zeroed out broiler meat ending stocks for 2002 and 2003, assuming that trade will normalize and will be limited only to pipeline stocks. Ukrainian poultry meat importers and wholesalers accumulated significant stocks of poultry meat in July-August 2001 in anticipation of the ban on U.S. imports.

Based on interviews with importers, it is estimated that at least 30,000 MT of U.S. frozen chicken meat was in storage in Ukraine by the end of September 2001, just prior to the initial introduction of the U.S. ban in November 2001. Importers again replenished stocks when the ban was temporarily lifted in December 2001. ending stocks for 2001. Ending stocks reported for 2001 reflect this "stockpile" of U.S. frozen poultry in anticipation of the ban.

Marketing

Certain Ukrainian poultry producers and GOU policymakers launched an anti-U.S. poultry campaign in 2001/2002. Local media carried reports that Ukrainian birds were free from hormones, antibiotics, feed additives and preservatives, insinuating that U.S. poultry meat contained these chemicals and was a public health danger. Such false statements have significantly damaged the reputation of U.S. poultry meat in Ukraine.
Assuming the ban is lifted in the coming months, U.S. chicken meat imports will remain competitive in 2003 among lower-income consumers. This is subject, however, to the continuance of the current import regime whereby importers avoid paying official import duties, usually by importing through Free Economic Zones. Domestically produced chilled broiler meat is targeted at more affluent consumers and is priced higher than imported meat from the United States or Europe.

Ukrainian consumers are still divided into two large consumer groups -- rural and urban. Consumers in rural areas comprise 30 to 35 percent of the Ukrainian population. These villagers rarely purchase poultry meat from the marketplace as they raise poultry on their private household plots. Demand within the large metropolitan areas is met, for the most part, by large Ukrainian suppliers who sell directly to supermarket chains or through importers who usually sell to retailers operating at open markets. Poultry meat demand within smaller cities of up to 50,000 residents is still mainly met through imported frozen chicken. This is a function of both lower incomes as compared with the large metropolitan areas as well as a lack of distribution infrastructure. **Ukrainian producers have not yet taken over this "smaller city" market niche as they prefer to sell fresh/chilled product and often lack the cold chain capacity necessary to develop an effective distribution network throughout the smaller cities.**

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Section II. Statistical Information

Broiler Meat PSD Table

	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	0	20	0	15	0	0
Production	45	60	55	130	0	170
Whole, Imports	0	0	0	0	0	0
Parts, Imports	30	62	30	40	0	30
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	30	62	30	40	0	30
TOTAL SUPPLY	75	142	85	185	0	200
Whole, Exports	0	0	0	0	0	0
Parts, Exports	0	0	0	0	0	0
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Consumption	75	127	85	185	0	200
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	75	127	85	185	0	200
TOTAL Use	75	127	85	185	0	200
Ending Stocks	0	15	0	0	0	0
TOTAL DISTRIBUTION	75	142	85	185	0	200
Calendar Yr. Imp. from U.S.	25	52	25	20	0	10

Broiler Parts Imported into Ukraine, MT

Imports from	1995	1996	1997	1998	1999	2000	2001	January-June 2001	January-June 2002
United States	**1378**	**78898**	**41572**	**36609**	**77456**	**21991**	**52461**	**6136**	**15053**
Others									
Belgium	41	464	669	406	180	435	3387	700	8861
Netherlands	2029	7368	5288	10648	5655	840	1391	100	3956
Poland	397	88	181	58	85	277	232	120	582
Germany	22	3	0	160	513	440	1025	499	567
Hungary	0	1021	33	3	109	236	730	214	280
France	20	0	0	0	21	43	183	85	40
Canada	0	0	0	0	48	50	491	0	20
Spain	0	0	0	0	0	0	7	0	19
Great Britain	148	110	0	0	0	97	1160	260	0
Russian Federation	83	13	160	40	0	0	117	75	0
Total for Others	**2740**	**9066**	**6332**	**11315**	**6611**	**2418**	**8722**	**2054**	**14326**
Others not Listed	1275	496	328	672	1121	140	349	40	0
Grand Total	**5392**	**88460**	**48232**	**48596**	**85188**	**24549**	**61532**	**8229**	**29379**

Source: State Statistics Committee of Ukraine (Ukrainian HS Codes 202741000 prior to June 2001 and 020714000 after July 2001)

Ukraine Broiler Leg Quarter Wholesale Prices Following the November 2001 U.S. Poultry Ban (UAH per 1 kilogram)

Year	2001	2002
Jan	n.a.	6.14
Feb	n.a.	6.12
Mar	n.a.	6.64
Apr	n.a.	6.09
May	n.a.	6.0
Jun	n.a.	5.6
Jul	n.a.	
Aug	n.a.	
Sep	n.a.	
Oct	n.a.	
Nov	6.04	
Dec	5.73	

Source: Interview with a Ukrainian Poultry Meat Trader.
The rate of exchange was UAH 5.3/US$1 on January 2, 2002.